

# Transition Finance in the Debt Capital Market

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# Executive summary

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The [Climate Transition Finance Handbook](#) (CTFH), published in 2020 by ICMA was arguably ahead of its time by identifying the need for organisation level disclosures and strategy to underpin an issuer's transition related capital financing. It underlined the importance of the credibility of an issuer's Greenhouse Gas (GHG) emissions reduction strategy, commitments, and practices; while defining the goal of transition finance as realising the objectives of the [Paris Agreement on Climate Change](#). It characterises transition as an organisation-level challenge that can be translated into a key financing theme for both use-of-proceeds and sustainability-linked bonds.

Transition finance as a concept covers different objectives and ambitions. We identify three different overlapping definitions in general use currently for transition finance. These can be differentiated from the wide to the narrow lens of what transition finance is understood to be achieving and include economy-wide transition, climate transition, and hard-to-abate transition. In Appendix D, we provide a non-exhaustive list of existing transition finance definitions from other leading sources.

There is often confusion that the only contribution that sustainable bonds make to climate transition is through labelled "climate transition bonds", a subcategory of sustainable bonds representing currently 0.4% of the market. Considering climate transition holistically, the green and sustainability bond market to date has been largely dedicated to the financing of decarbonisation of energy, buildings, and transport sectors. Similarly, the new sustainability-linked bond (SLB) market is focused on climate transition finance with 69% of SLBs having GHG reduction and/or renewable energy increase targets. It remains, however, difficult for companies in the fossil fuel sector and the hard-to-abate industries to raise transition finance because of a lack of consensus on acceptable and credible technologies and trajectories, and "greenwashing" fears for issuers and investors alike. This is illustrated by the modest amounts raised by issuers from these sectors which are equivalent to an estimated 3.6% of green, sustainability and sustainability-linked bond issuance to date.

Both the official sector and the market are nonetheless providing guidance that can spur the further expansion of transition finance in the sustainable bond market. Firstly, the complexity of transition is being conceptualised in taxonomies as economic activities with an outcome, a list of approved technologies or projects, and/or a phase-out of specific facilities or even industries. These also reflect differences and priorities between jurisdictions and regions. In Appendix C, we provide an overview of how various taxonomies incorporate transition perspectives. Secondly, guidance has been developed by some jurisdictions in the form of pathways and roadmaps aiming to provide transition trajectories notably for fossil fuels and the hard-to-abate sectors which issuers can refer to.

In parallel, the formalisation of corporate sustainability reporting and standards by the International Sustainability Standards Board (ISSB) and the European Sustainability Reporting Standards (ESRS) is an opportunity for the mainstreaming of transition plans. Transition plans may unlock the potential of transition finance in the sustainable bond market by: (i) providing a strategic context to evaluate the consistency of issuer level transition and sustainability commitments; (ii) helping issuers avoid controversy related to potential carbon lock-in risk in their individual projects and investments; and (iii) enhancing sustainability-linked bond target setting and KPI selection while offering context for the evaluation of failed targets and circumstances beyond an entity's control.

We note however that although transition plans are referenced in the ISSB's IFRS S2 and in the ESRS, this does not clearly translate into a requirement beyond disclosure. Regulation may nonetheless lead to mandatory transition for corporates in key jurisdictions. In the EU, the [provisionally agreed](#) Corporate Sustainability Due Diligence Directive (CSDD Directive) may include a disposition requiring certain EU and non-EU companies, and reportedly, financial institutions to adopt 1.5°C compatible transition plans. For real economy corporates, this would essentially imply adapting business models to address climate risks, and where relevant, invest the CapEx and OpEx required for decarbonisation. We propose, however, that the market precedes or accompanies regulation by promoting the voluntary provision of transition plans by issuers, especially in the fossil fuels and hard-to-abate sectors.

Considering the technical reporting aspects, it should be possible for an entity to align with IFRS S2, ESRS E1, the work of the UK Transition Plan Taskforce (UK TPT), as well as the recommendations of the CTFH, by publishing an integrated transition plan. As a contribution to their widespread voluntary adoption, we are publishing a structure for such an integrated transition plan with two documents in appendix which are: (i) *Key actions & disclosures for an integrated transition plan* (Appendix A) and (ii) *Summary comparison of key transition-related disclosures & actions under CTFH, IFRS S2, ESRS E1, & UK TPT recommendation* (Appendix B).

# Introduction

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ICMA has been at the forefront of transition finance since the publication in 2020 of the Climate Transition Finance Handbook ([CTFH](#)) developed by the Executive Committee of the Principles<sup>1</sup>, as well as by underlining the importance of integrating transition considerations in taxonomies through its [publications](#) and [responses](#) to consultations. Similarly, the release of guidance for Sustainability-Linked Bonds with the [Sustainability-Linked Bond Principles](#) (SLBP), also in 2020, was conducted with the intention of facilitating the development of a product that could especially serve transition finance.

The debate on transition is now at the centre of both policy and market considerations, with notably calls for greater market-led financing. In parallel, progress has been made on official guidance on transition as well as on standards for corporate sustainability reporting. In this publication, our focus is on how capital markets, and more specifically sustainable bonds, are financing the transition and what can be done to further scale their contribution by leveraging both market and official guidance. The greatest challenge is the financing of the hard-to-abate sectors where market participants need as much direction as possible on technologies and industry trajectories while avoiding the risk of carbon lock-in and, more generally, controversy and greenwashing concerns.

In this paper, we consider the latest recommendations from the Principles and other market and official sources. We break down transition finance into different categories while analysing the extent to which the sustainable bond market is financing the transition. We review the progress of international taxonomies to integrate transition, as well as consider latest developments on guidance for sectoral pathways and industry roadmaps. Furthermore, we explore the recent progress for international corporate reporting standards and their implications for the availability of transition plans. We then take a deeper dive into ongoing international work on transition plans and make proposals for the convergence of best practice on transition plans. We also refer briefly to the wider policy considerations of transition.

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1. The [Executive Committee](#) is the leadership body of the market initiative behind the Green, Social, Sustainability and Sustainability-Linked Bond Principles (the "Principles") supported by ICMA.

# Market considerations and guidance

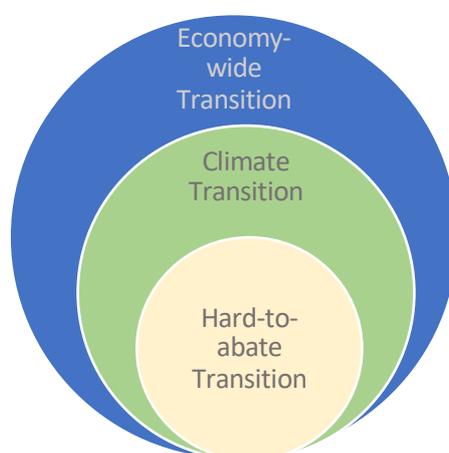
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## The lenses of transition

There is often confusion around the use of terminology in sustainable finance, which is compounded by genuine conceptual shifts affecting certain definitions over time. This is something that ICMA identified early on in 2020 with its publication [Sustainable Finance - High-level definitions](#). Discussions around transition finance illustrates this, with the OECD referring for example to there being “neither a consensus definition of transition finance, nor a set of technical criteria or qualifying sectors or technologies that are commonly agreed upon” ([OECD Guidance on Transition Finance](#)).

We believe that there are currently at least three different overlapping definitions in general use for transition finance. These can be differentiated from the wide to the narrow lens of what transition finance is understood to be achieving that we list and illustrate below:

- **Economy-wide transition** refers to transformation of the entire economy with the objective of meeting the goals of the Paris Agreement but also wider sustainable objectives (e.g. biodiversity or circular economy) embedded in taxonomies, or with reference to the UN SDGs (see for example [G20 Sustainable Finance Report](#)).
- **Climate transition** covers the goals of the Paris Agreement and the target of achieving Net Zero but typically with a narrower sectoral or industry focus especially on the energy and high-emissions sectors (see the [OECD Guidance on Transition Finance](#)).
- **Hard-to-abate transition** emphasises the specific challenges of reducing the emissions of the fossil fuel and hard-to-abate sectors, or promoting more sustainable alternatives to their output (see for example Japan's [roadmaps](#) for GHG-intensive industries).



In Appendix D, we provide a non-exhaustive table bringing together existing definitions of transition finance used in official and market guidance to which we refer below.

## Transition finance guidance from the Principles

The CTFH represents seminal guidance from the Principles identifying the importance of organisation-level related disclosures and strategy to underpin an issuer's transition-related capital financing. It aims to clarify the issuer-level practices, actions, and disclosures to credibly position the issuance of use of proceeds or sustainability-linked instruments to finance the transition, particularly of "hard-to-abate" sectors<sup>2</sup>. It characterises transition as a theme for both use-of-proceeds and sustainability-linked bonds while recognising that a climate transition label may nonetheless be used in addition for certain transactions by issuers.

The CTFH underlines the importance of the credibility of an issuer's GHG emissions reduction strategy, commitments, and practices. It defines the goal of transition finance as the realisation of the global objectives enshrined within the [Paris Agreement on Climate Change](#) to keep the average global temperature rise this century well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase even further to 1.5°C.

The CTFH further recommends that disclosures be based on analysis and existing climate change disclosure frameworks developed by relevant industry groups, regulatory bodies and the scientific community regarding climate change mitigation and adaptation. It identifies four key elements around which issuers should communicate their transition commitments. These are:

1. Issuer's climate transition strategy and governance;
2. Business model environmental materiality;
3. Climate transition strategy and targets to be 'science-based'; and
4. Implementation transparency.

The CTFH acknowledges that GHG emission reduction pathways must be tailored to the sector and operating geographies of an issuer, and that issuers generally have different starting points and are at different transition stages and on different pathways. It therefore does not aim to provide definitions or taxonomies of transition projects but rather recognises the variety of efforts in this area globally by both market and official sector initiatives to achieve the Paris Agreement goals.

Updated in 2023, the CTFH incorporates specific reference to Scope 3 reporting where material, as well as more detail on science-based trajectories and the emissions reduction transition path including well below 2°C scenarios at minimum. It also contains new details about carbon cost assumptions, phase out plans for carbon intensive activities, and disclosure of any locked in emissions. Furthermore, it generally focuses on user friendliness with annexes including a non-exhaustive list of wider official and market guidance for climate transition themed green, sustainability, and sustainability-linked bonds.

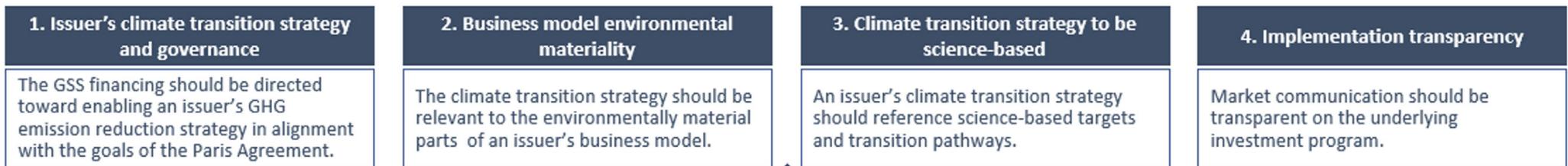
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2. Examples of "hard-to-abate" sectors from Anthony Robert Hobley, "[Tackling the harder-to-abate sectors: Join the conversation on 7 July](#)," WEF, July 1, 2020; Max Åhman, "[Unlocking the 'Hard to Abate' sectors](#)," World Resources Institute; Energy Transitions Commission, "[Mission possible: Reaching net-zero carbon emissions from harder-to-abate sectors](#)", November 2018

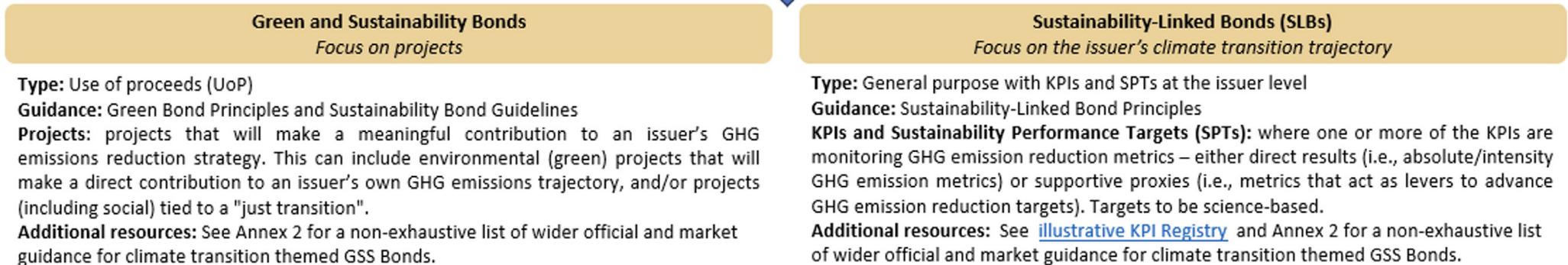
## CTFH Infographic

- **Climate transition focuses principally on the credibility of an issuer’s Greenhouse Gas (GHG) emissions reduction strategy, commitments, and practices.**
- Bonds aligned with the Green, Sustainability, or Sustainability-Linked Bond Principles (GSS Bonds) to be underpinned by organisation level climate transition strategies and disclosures **aligned with recommendations of the Climate Transition Finance Handbook 2023 (CTFH 2023).**
- Notably, GSS issuance from issuers in ‘hard-to-abate’ sectors would be strengthened through alignment with the CTFH 2023.
- **Issuers are encouraged to reference the CTFH 2023** and align with the elements contained therein to communicate their GHG emissions reduction strategy. This is especially pertinent to green, sustainability or sustainability-linked instruments designated as “climate transition” bonds (which may take the form of an additional climate transition label, as is the case in certain jurisdictions).

### Key Elements of the Climate Transition Finance Handbook



### Sustainable Finance Solutions



## Other market and official sector frameworks

Subsequent to the release of the CTFH, there have been numerous market and official sector efforts to provide guidance through frameworks for transition finance in the capital markets and more broadly. We highlight below some significant initiatives directly addressed at market participants:

- The [transition framework](#) of the Climate Bonds Initiative (CBI) is built on two foundations; the “Transition Principles” presented in the paper “[Financing Credible Transitions](#)” (2020) and the five “Hallmarks” presented in the paper “[Transition finance for transforming companies](#)” (2022). In 2023, CBI released: (i) [Sustainability-Linked Bond Database Methodology](#); (ii) [Guidance to assess transition plans](#); (iii) [Transition Finance Consensus Mapping](#); (iv) and, together with EBRD and Green Climate Fund, [Financing the Corporate Climate Transition with Bonds: A Practical Guide](#).
- In May 2021, Japan’s [Basic Guidelines on climate transition finance](#) were formulated in collaboration with the Financial Services Agency (FSA) and Ministry of Economy, Trade and Industry (METI); and Ministry of the Environment, explicitly based on the CTFH. They follow the CTFH’s focus on organisation level disclosures and strategies with a greater focus on enabling companies to explicitly label their related financing in the capital and loan markets as “transition bonds” or “transition loans”.
- In October 2022, the OECD published its [Guidance on Transition Finance](#), setting out elements of credible corporate climate transition plans, which aim to align with the temperature goal of the Paris Agreement. Among other things, the OECD Guidance is relevant to corporates developing transition plans and seeking to identify the most salient elements of existing initiatives, as well as to financial market participants planning to provide finance for the implementation of net-zero strategies.
- In June 2023, the European Commission published its [recommendations on transition finance](#) to support market participants wishing to obtain or provide transition finance by offering practical suggestions. Specifically, these include definitions for the concepts of “transition”, “transition finance”, “transition plans”, that showcase the use of various EU sustainable finance tools, especially of the EU Taxonomy, for transition, and aim to guide market participants on how to introduce proportionality, especially for SMEs.
- In October 2023, the ASEAN Capital Markets Forum (ACMF), which represents ten national securities regulators in southeast Asia, published its [Transition Finance Guidance](#). It addresses how entities may assess or demonstrate a credible transition in ASEAN to obtain financing from capital markets, making use of relevant resources as needed. Its aim is to accelerate the efforts of financial institutions to direct finance to transitioning companies and create incentives for real economy companies to build more ambitious and credible transition plans.

Several certification and assessment schemes are also particularly relevant for issuers in debt capital markets. [Over 4200 companies](#) have set targets approved by the [Science Based Targets initiative](#) (SBTi)<sup>3</sup> or made commitments to do so, representing 34% of the global economy by market capitalisation. SBTi does not however yet provide certification for some sectors including oil & gas. The existing [CBIs certification](#) has also recently been extended to cover entity-level transition and SLBs including for basic chemicals, cement, shipping, and steel sectors. Among other things, the CBI’s certification requires an issuer to meet quantitative emission thresholds over a pathway, at least by 2030, and commit to align with declining thresholds through 2050. Sustainable Fitch also provides [transition assessments](#) (focused on high-emitting sectors), and Moody’s offers [Net Zero Assessments](#).

In June 2022, the Principles released the [Methodologies Registry](#) to help issuers, investors, or financial intermediaries identify the relevant resources to guide their transition. This is a non-exhaustive, yet comprehensive list of available tools, methods, scenarios, and initiatives dedicated purely to the validation of specific emission reduction trajectories/pathways, especially in the context of the Element 3 of the CTFH which requires transition strategies to be science-based.

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3. SBTi is a corporate climate action NGO that works in partnership with CDP, the United Nations Global Compact, World Resources Institute (WRI), the World Wide Fund for Nature (WWF) and We Mean Business Coalition commitments. It develops standards for setting science-based targets for companies and financial institutions and validates science-based targets, to ensure their alignment with the Paris Agreement to limit global warming to 1.5 °C.

# Transition-themed transactions in the debt capital market

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The CTFH argues that transition is best conceived as a theme that can be financed by green and sustainability bonds, as well as SLBs, while recognising the development of a “climate transition” label adapted notably to certain jurisdictions and regions. The sustainable bond market plays a major role in financing economy-wide and climate transition, as defined above, including by financing transition projects and entity trajectories. It does not yet however finance at scale the transition of companies in the fossil fuel sector and the hard-to-abate industries. It is also important to note that transition can be financed by unlabelled bonds in the broader debt capital markets, such as through investments in vanilla bonds of companies with transition plans, although this is not a topic covered in this section. We review below the contribution of the sustainable bond market to transition finance. Please also see the infographic at the end of the section which summarises available market data.

## Transition-themed green and sustainability bonds

The sustainable bond market is indeed largely focused on climate transition finance as we have defined it above (i.e. with the objective of meeting the goals of the Paris Agreement and achieving Net Zero). We estimate that 90% of issuance in the green bond market to date relates to the financing of climate transition. The CBI has estimated<sup>4</sup> that 80% of allocations from the green bond market between 2014 and 2021 went to the decarbonisation of energy, buildings, and transport sectors, which are essential to that objective. Moreover, some official sector studies<sup>5</sup> find a positive correlation between green bond issuance with GHG disclosure and emission intensity reduction at entity-level.

If we focus, however, on hard-to-abate transition finance as described above in the section on the “Lenses of transition” which includes fossil fuels and hard-to-abate industries such as chemicals, metals & mining, airlines, cement, steel, and shipping, the picture is different. We have identified 114 issuers of green and sustainability bonds from these fossil fuel and hard-to-abate sectors representing USD71 billion of issuance to date (of which 44% are from the fossil fuel industry). All together these bonds represent only 2% of the total outstanding for green and sustainability bonds.

## Labelled “climate transition” bonds

Separately, labelled “climate transition” bonds represent for the time being less than 0.4% of the outstanding sustainable bond market and in many cases refer to green or sustainability bonds that have been marketed with an additional climate transition label. This segment may however see significant development in Asia, with Japan notably being at the forefront of an effort to develop labelled transition bonds both in the corporate and sovereign sector.

Japan’s effort is supported by official guidance at the label and project level ([Basic Guideline on climate transition finance](#) and [roadmaps](#) for GHG-intensive industries). To date, Japanese corporates have issued approximately the equivalent of USD3 billion of labelled climate transition bonds. The government of Japan has announced that it will issue 20 trillion yen of GX Economy Transition Bonds (over USD140 billion) over the next 10 years of which 800 billion yen (USD5.4 billion) were issued as 10-year Japan Climate Transition Bonds on 14 February 2024. It released the [Japan Climate Transition Bond Framework](#) in November 2023.

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4. See CBI’s [Sustainable Debt Global State of the Market 2021](#).

5. See ESMA’s paper on the [Environmental impact and liquidity of green bonds](#).

## Sustainability-Linked Bonds

Sustainability-Linked Bonds (SLBs), a recent addition to the sustainable bond universe with dedicated [Principles](#) first published in June 2020, are particularly suited to the financing of corporate transition. Contrary to use-of-proceeds bonds, SLBs are focused on issuer-level sustainability targets benchmarked by Key Performance Indicators (KPIs). The issuance of SLBs grew rapidly, reaching approximately USD246 billion end-2023. Organisations issuing SLBs, of which 89% are corporations, measure the sustainability performance of these instruments with targets mainly focused on climate transition. As illustrated at the end of this section, it is estimated that 69% of KPIs referenced by SLBs are climate transition finance related (carbon/GHG emissions, renewable energy).

To take a closer look at the transition role of SLBs, we conducted a review of SLBs issued from January 2022 to December 2023 based on a sample accounting for 84% (USD104 billion) of the SLB market in the stated period. 60% of issuers from our sample reported that their targets had received approval from SBTi (noting that no documentation was found for 13% of the sample). As referenced above, SBTi approval is a good proxy for correlating an organisation's sustainability performance targets with a climate transition objective.

SLB issuance from hard-to-abate and fossil fuel sector issuers reached USD48 billion. This represents 20% of the total SLB market of which 12% for companies from hard-to-abate sectors and 8% for fossil fuel companies.

### Scope for further market development

While both green and sustainability bonds as well as SLBs have been largely dedicated to climate transition finance, the picture for transition finance in the hard-to-abate industries and fossil fuel sector is different. To date, financing from green, sustainability and sustainability linked bonds to these sectors comes to an estimated USD119 billion, representing only 3.6% of the total outstanding amount for these bond categories.

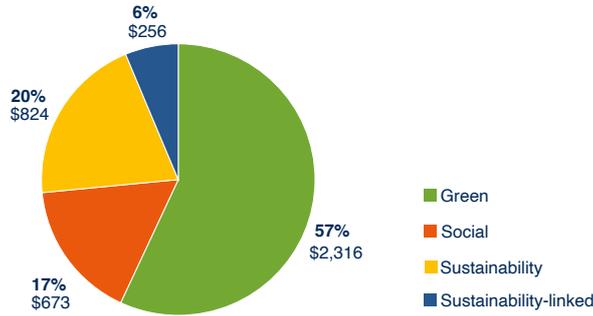
Furthermore, even if the SLB market appears more open to transition-themed issuance from the fossil fuel and hard-to-abate industries, the size of that market would need to grow significantly beyond its current total of USD246 billion (6% of the total sustainable bond market) to finance at scale their transition.

There remains therefore significant scope for the further development of fossil fuel and hard-to-abate transition-themed transactions for both use-of-proceeds bonds and SLBs, as well for the development of the SLB market generally. The progress with relevant official and market guidance that we discuss in the subsequent sections is promising and can help in this respect.

# Sustainable bond market contribution to transition finance

As of January 2024, outstanding sustainable bond issuance is USD4 trillion in total.

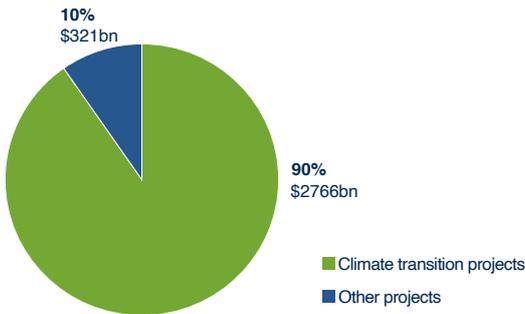
Sustainable bond issuance by type (in USD bn)



Source: Bloomberg

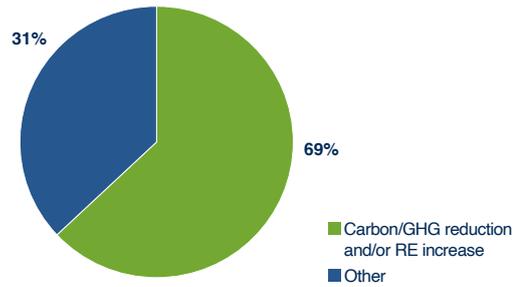
## Climate Transition Finance

Climate transition projects in the green & sustainability bond market (in USD bn)



Source: Bloomberg

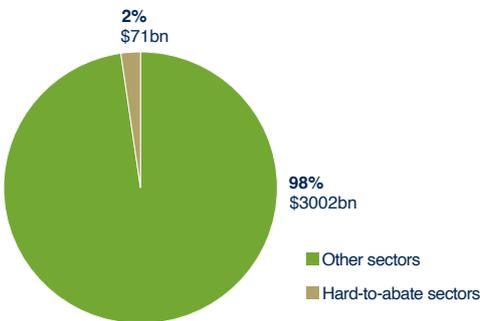
Climate transition KPIs in the SLB market



Source: Natwest (based on a tracked sample of large public transactions)

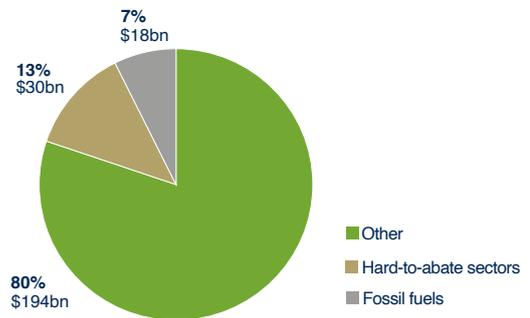
## Hard-to-abate transition finance

Hard-to-abate & fossil fuel transition in the green & sustainability bond market (in USDbn)



Source: Bloomberg

Hard-to-abate & fossil fuel transition in the SLB market (in USDbn)



Source: Bloomberg

# Expanding the market with official guidance

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Through evolution and innovation, official sector and market guidance is increasingly providing tools that can expand the scope of transition finance. Evolving taxonomies are integrating transition in a variety of ways with notably a focus on avoiding carbon lock-in in interim and “amber” transitions while specific guidance is also targeting transition for the hard-to-abate industries.

## Integrating transition in taxonomies

In sustainable finance, taxonomies serve as a key reference system for market participants to align with activities, assets, and/or project categories that deliver on key climate, green, social, or sustainable objectives with reference to identified thresholds and/or targets. Alongside market-based taxonomies<sup>6</sup>, there are around 40 jurisdictions which have developed or are in the process of developing taxonomies.

Taxonomies represent key guidance for issuers of sustainable bonds. The non-exhaustive and high-level green project categories of the Green Bond Principles do not constitute a taxonomy. However, the Principles highlight the existence of national and international taxonomies and encourage issuers to disclose taxonomy alignment of their green projects as well as the related eligibility criteria and any green standards or certifications referenced in project selection, if any. The SLBP and ICMA’s [Illustrative SLB KPI Registry](#) also recognise the use of taxonomy for KPI purposes.

We have highlighted in earlier publications<sup>7</sup> that taxonomies were often originally deficient in integrating transition notably by focusing on identifying activities and projects that are – or will be in the medium term – sustainable or Paris-aligned. They were therefore criticised for being potentially static and binary while underestimating the potential of innovation. These concerns are being addressed through both the evolution of early taxonomies and novel approaches in later ones. Safeguards to avoid carbon lock-in are a recurring theme.

In Appendix C, we provide an overview of the transition related aspects of leading official and market taxonomies. We categorise these taxonomies’ transition approaches as (i) transition as an activity with an outcome (e.g. EU Taxonomy); (ii) project and “whitelist” based approaches (e.g. China’s Green Bond Catalogue); (iii) the “traffic lights” approach (e.g. the ASEAN Taxonomy); (iv) integrated approaches (e.g., the CBI Taxonomy and Sector Criteria and the Singapore-Asia Taxonomy); (v) transition as a managed phase-out (e.g. the Singapore-Asia Taxonomy). However, there may be overlaps as a taxonomy can borrow from several of these approaches at the same time.

Generally, characteristics and innovations relating to transition and avoidance of carbon lock-in in these taxonomies include:

- recognition of interim performance improvements (e.g. shift from harmful/red levels to amber before reaching green performance levels);
- direct incorporation of sunset dates for interim/amber performance levels (to upgrade to green) and/or forward-looking pathways into technical criteria;
- rejection of “amber” categories where green alternatives feasibly exists;
- regular reviews and tightening of thresholds and criteria as a matter of taxonomy governance;
- distinction of eligibility conditions between greenfield and brownfield investments;
- requiring entity-level transition plans backing up an activity-level transition;
- outright exclusions of some activities and projects (e.g. solid fossil fuels);

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6. See the [CBI Taxonomy](#), the [MDBs-IDFC Common Principles](#), and the [ISO Taxonomy](#).

7. [Overview and Recommendations for Sustainable Finance Taxonomies](#).

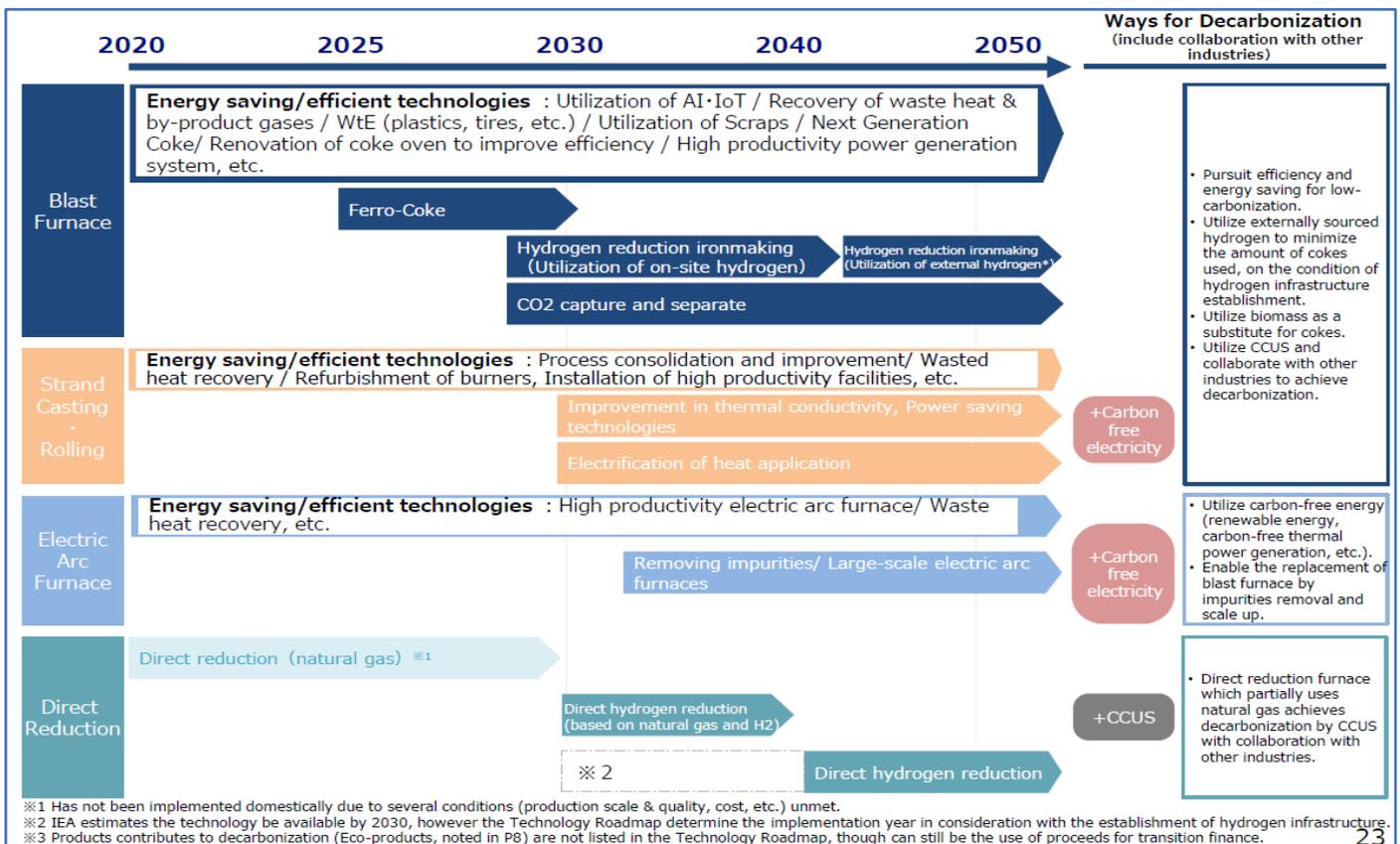
- other targeted technical criteria specifications (e.g. limitations to increase in production capacity or asset lifetime in case of a fossil-fuel switch); and,
- CapEx-related focus in taxonomy implementation measures.

The OECD’s recently released detailed report “[Mechanisms to Prevent Carbon Lock-in in Transition Finance](#)” provides a comprehensive overview of lock-in considerations in transition finance and highlights the role that taxonomies can play in this respect. The report also cites the IEA finding that over 80% of steel and cement production facilities in the EU and the US are around 20 years old, and soon due for refurbishment for lifetime extension. There is therefore an important window of opportunity for both greenfield and brownfield decarbonisation investments while avoiding the lock-in risks.

## Pathways and roadmaps for hard-to-abate industries

Several key jurisdictions are developing decarbonisation pathways and roadmaps that can help transition finance navigate the challenge of supporting transition in the hard-to-abate industries. In Japan notably, sectoral decarbonisation roadmaps have been developed with a special focus on hard-to-abate sectors. Since October 2021, Japan’s METI has been releasing [roadmaps](#) for GHG-intensive industries<sup>8</sup>. In essence, these provide expected corporate level actions and potential technologies together with an implementation timeline toward the 2050 carbon neutrality objective. The METI roadmaps also provide contextual insights and analysis, such as trends, practices, and production processes in each sector, the rationale for roadmap development, the Paris alignment and scientific basis. Companies are expected to refer to these roadmaps when raising transition finance in line with the country’s [Basic Guidelines](#). Financial institutions can also use those in assessing whether companies’ strategies and initiatives qualify for transition finance.

### METI’s Roadmap for Transition Finance in Iron and Steel Sector



8. Currently, roadmaps in Japan are provided for iron and steel, chemical, power, gas, oil, pulp and paper, cement, and automobile sectors. In other industrial sectors, Japan’s Ministry of Land, Infrastructure, Transport and Tourism has also been releasing roadmaps for international shipping, domestic marine transport, and aviation sector, that show technologies and directions toward decarbonisation that can be used for transition finance.

While not as explicitly targeted at supporting transition finance as in Japan, other jurisdictions have been developing pathways and roadmaps, which can apply to transition in the hard-to-abate sectors:

- In China, it is [reported](#) that the National Development and Reform Commission (NDRC) and other ministries in charge of sectoral developments have already developed at least a dozen guidelines on technical pathways for decarbonisation for carbon-intensive industries.
- In other Asian countries, authorities have been recently releasing national policies and roadmaps focused on the transition in the energy sector<sup>9</sup>. The [ASEAN Transition Finance Guidance](#), released by ACMF in 2023, also refers to the technology lists, such as the [Asia-focused guidance](#) developed by the [Economic Research Institute for ASEAN and East Asia](#), for potential use until official sector pathways and roadmaps are developed.
- In the EU, the European Commission published in January 2023 the [transition pathway for the chemical industry](#) which identifies the actions and conditions needed to achieve the green and digital transition and improve resilience in the sector. This is part of a broader provision of [transition pathways for European industrial ecosystems](#).
- In the UK, the Government published its [Industrial Decarbonisation Strategy](#) in March 2021.
- In the US, the Department of Energy released its [Industrial Decarbonization Roadmap](#) in September 2022, a comprehensive report identifying four key pathways to reduce industrial emissions in American manufacturing.

Nonetheless, sectoral pathways and roadmaps catering to the diversity of developed and developing economies are not yet widely available or sufficiently comprehensive in coverage. This has been highlighted as a key challenge in the recent [OECD Guidance on Transition Finance](#) (2022) and [reports](#) by the [Asian Transition Finance Study Group](#). ICMA has also previously highlighted that there is a lack of science-based decarbonisation pathways or tools that apply both sectoral and geographical lenses<sup>10</sup>.

## Benchmarking ambition

Pathways and roadmaps can otherwise be used to demonstrate the level of ambition of targets under their SLBs, or to showcase the relevance of selected technologies projected by such pathways and roadmaps for use of proceeds. The [International Energy Agency's](#) (IEA) scenarios and methodologies have been particularly influential and authoritative around the globe. They are used as input for official sector policies for pathways and roadmaps, and directly referenced by several issuers in sustainable bond frameworks to position their transition strategies. The IEA's scenarios also constitute the basis of sectoral guidance, benchmarking or certification schemes for companies, such as those provided by the [Transition Pathway Initiative](#) (TPI) and the [Science-based Targets Initiative](#) (SBTi).

New regulations and guidance are addressing the conflict that can develop between aiming for ambitious transition projects or targets and the reputational/market risks of failure. In Japan, METI published a [Transition Finance Follow-up Guidance](#) highlighting, among other things, that transition progress may exceed or fall short of initial expectations of strategies and individual projects, and that it is vital for investors to understand the changes in the circumstances and engage in constructive dialogue to discuss future efforts towards desired outcomes. Both ESMA and the UK Financial Conduct Authority (FCA) have been recently discussing protection for disclosure of forward-looking information in prospectuses<sup>11</sup>. The [EU Green Bond Standard](#) allows issuers to explain the reasons for delays or deviations significantly impacting the delivery of CapEx Plans.

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9. See [Asia Transition Finance Study Group Annual Report](#), September 2023, p. 13

10. See ICMA's "[Overview and recommendations for sustainable finance taxonomies](#)", 2021, p.30

11. In its [Progress report on greenwashing](#), ESMA signalled the potential need for "safe harbours": "Potential liability risks may be driving non-disclosure of certain forward-looking information, particularly in prospectuses. The uncertainty around forward-looking information raises the issue of non-execution risk – the risk that commitments about future sustainability performance are not achieved. The further away in time such commitments are, the higher the non-execution risk, also due to the possibility that a new managing team will overturn past decisions....To address the potential non-disclosure of forward-looking information relevant to investors within prospectuses, further consideration could be given to the extent to which liability risks make issuers uncomfortable with including such information and to identify potential ways to address fairly and effectively some of these concerns." In the UK, the FCA [consulted](#) on "protected forward-looking statements" that aim to encourage the inclusion of forward-looking disclosures in prospectuses including for sustainability.

# From disclosures and reporting to transition plans

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In parallel with the evolution of taxonomies and other guidance described above, the increasing availability of sustainability disclosures has been driven by investor demand and has notably been based on voluntary disclosures aligned with the highly influential framework of the Task Force on Climate Related Financial Disclosures (TCFD). During the COP26 in November 2021, the IFRS Foundation established the [International Sustainability Standards Board \(ISSB\)](#) to develop a global baseline for corporate sustainability disclosures.

Building on these efforts, market best practice and soon regulation, have called for the mainstreaming of corporate transition plans. Transition plans can act as enabler of transition finance by providing a basis for both issuers and investors to propose and evaluate transition strategies, actions, and investments.

## Disclosures as a foundation

In June 2023, the ISSB issued [its inaugural standards](#) (IFRS S1 and IFRS S2), which received [IOSCO's endorsement](#) swiftly later. IFRS S1 provides a set of reporting requirements designed to enable companies to communicate to investors about the sustainability-related risks and opportunities they face over the short, medium, and long term. IFRS S2 sets out specific climate-related disclosures. Several jurisdictions have already taken steps to implement the ISSB standards or expressed their intention to do so. Examples include Australia, Brazil, Canada, China, Hong Kong, Malaysia, Singapore, South Korea, Türkiye, and the UK.

In parallel in December 2023, the [European Sustainability Reporting Standards \(ESRS\)](#) were released by the European Commission for use by all companies subject to the [Corporate Sustainability Reporting Directive \(CSRD\)](#). The ESRS cover the full range of environmental, social, and governance issues and integrate a double materiality approach, going beyond the primary financial materiality focus of the ISSB standards. The first CSRD reports are due in 2025 (covering FY 2024), and the reporting obligation will gradually expand to around 50 000 companies by 2029, including listed SMEs who will use a simplified reporting standard<sup>12</sup>.

In the UK, the FCA [introduced](#) climate-related disclosures aligned with the TCFD on a comply or explain basis in December 2021, with a [phased-in application](#). The FCA is [expected to launch a consultation](#) in H1 2024 on the adoption of the ISSB standards in the UK, and in parallel on the specific transition plan framework building on the [recommendation](#) of the UK TPT. In the US, the SEC consulted in March 2022 on its [proposed climate-disclosure rule](#), with the final rule remaining yet to be published.

Generally, the application of sustainability reporting regimes will take time to mature. Many corporates will be subject to such comprehensive non-financial disclosures for the first time. They will need to invest in data collection systems, human resources, and capacity building as well as gain implementation experience. Potential difficulties regarding the initial implementation of these reporting frameworks seem generally acknowledged by policymakers and regulators at the early stage. Also, market and stakeholder feedback<sup>13</sup> recommending international consistency and proportionality has translated into early efforts to avoid fragmentation between the ISSB and ESRS frameworks as well as various measures and reliefs to ease implementation.

Allowance has been made for the specific challenges of reporting on Scope 3 data. IFRS S2 [provide](#) transitional reliefs and other flexibility (e.g. reliance on estimations) in acknowledgement of the complexity for value chain reporting. The [ESRS](#) allow entities, except those with over 750 employees, to omit Scope 3 emission disclosures in their first year of reporting, even when material. The framework legislation for the ESRS, i.e. the [CSRD](#), adopts a general “comply or explain” approach for the first three years of any value chain reporting where data is not available.

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12. See [here](#) for a summary of the CSRD's phased-in application (source: GrantThornton)

13. ICMA's responses to the consultations on the ISSB standards, the ESRS, and the UK TPT recommendation can be found [here](#).

## Transition plans as the next step

To summarise, transition plans are essentially entity-level, forward-looking disclosures on decarbonisation ambition, targets, actions, means, and financial and other resources that are of strategic nature and supported by effective climate governance. We summarise in the table below definitions of transition plans in the leading international disclosure frameworks<sup>14</sup>:

Framework	Developed / adopted by	Transition plan definitions
<a href="#">IFRS S2 (Climate-related Disclosures)</a>	<a href="#">ISSB</a>	<i>“An aspect of an entity’s overall strategy that lays out the entity’s targets, actions or resources for its transition towards a lower-carbon economy, including actions such as reducing its greenhouse gas emissions.”</i>
<a href="#">UK TPT Disclosure Framework</a>	<a href="#">UK Transition Plan Taskforce (UK TPT)</a>	<i>“A climate-related transition plan is an aspect of an entity’s overall strategy that lays out the entity’s targets, actions or resources for its transition towards a lower-carbon economy, including actions such as reducing its greenhouse gas emissions. (Source: IFRS S2 Appendix A)”</i> .
<a href="#">ESRS E1</a> (climate change)	EC (as advised by <a href="#">EFRAG</a> )	<i>“An aspect of an undertaking’s overall strategy that lays out the undertaking’s targets, actions and resources for its transition towards a lower-carbon economy, including actions such as reducing its GHG emissions with regard to the objective of limiting global warming to 1.5°C and climate neutrality.”</i>

The [Glasgow Financial Alliance for Net Zero](#) (GFANZ) provides [guidance](#) both on financial sector and corporate transition plans. It has published<sup>15</sup> extensively on corporate transition plans which it characterises as articulating “a company’s overall approach to the net-zero transition, including information regarding its climate objectives, targets, actions, progress, and accountability mechanisms, and helps define that company’s overall role and level of ambition in the transition”. GFANZ has identified five themes (Foundations, Implementation Strategy, Engagement Strategy, Metrics & Targets, Governance) comprising ten components that provide relevant information for financial institutions when evaluating a company’s transition plan.

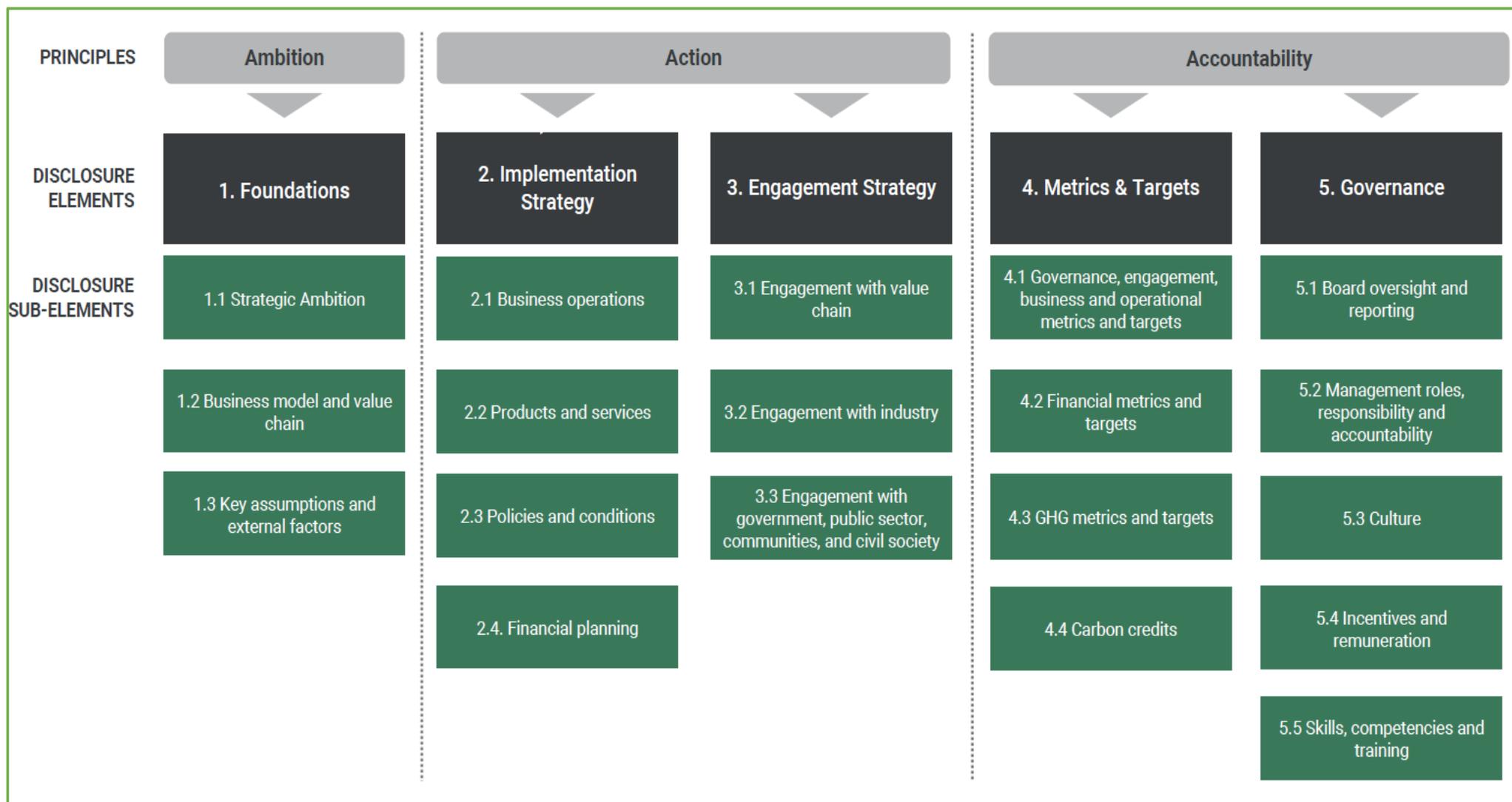
The [OECD Guidance on Transition Finance](#) released in October 2023 defines ten elements for credible corporate transition plans. These are: (i) setting temperature goals, net-zero, and interim targets in line with the goals of the Paris Agreement; (ii) using sectoral pathways, technology roadmaps, and taxonomies; (iii) measuring performance and progress through metrics and KPIs; (iv) providing clarity on use of carbon credits and offsets; (v) setting out a strategy, actions, and implementation steps, including on preventing carbon-intensive lock-in; (vi) addressing adverse impacts through DNSH and RBC due diligence; (vii) supporting a just transition; (viii) integration with financial plans and internal coherence; (ix) ensuring sound governance and accountability; and (x) transparency and verification, labelling, certification.

A [Transition Plan Taskforce](#) (TPT) was launched by HM Treasury in April 2022. The TPT issued its final [recommendation](#) for a dedicated transition plan framework in October 2023 and launched in November 2023 a consultation on sector-specific guidance for preparers to interpret the framework for their sectors. The UK TPT’s recommendation stands out as the most the most focused, structured, and detailed framework for transition plans so far. It builds on and is closely aligned with the TCFD, the ISSB’s standard IFRS S2, as well as the work of GFANZ. The UK TPT recommends such plans be standalone publications sitting alongside financial reports, which has also been designated as best practice by ICMA’s CTFH.

14. As mentioned above, the Principles also provide relevant guidance for transition plans in the CTFH. CBI have also developed high-level requirements for transitions plan with five “Hallmarks” presented in the paper [“Transition finance for transforming companies”](#) in September 2022.

15. [Expectations for Real-economy Transition Plans](#), September 2022.

### Overview of the UK TPT recommendation



Source: [TPT Disclosure Framework](#) – October 2023

## From voluntary adoption to mandatory requirement

It is important to note that while current sustainability and climate performance including GHG emissions are mandatory to disclose, where material, under the ISSB standards and the ESRS, entities are not obliged to have transition plans, science-based targets, or even, any targets at all. The applicability of transition plan and related disclosures is therefore contingent on entities voluntarily having them in the first place. ESRS E1 therefore states that in the case an undertaking does not have a transition plan in place, it shall indicate whether and, if so, when it will adopt a transition plan.

Such voluntary and disclosure nature of forward-looking commitments may however change going forward. Already, the [provisionally agreed](#) CSDD Directive in the EU may oblige certain large companies “adopt” a transition plan compatible with the Paris Agreement’s 1.5 °C objective, including EU entities with over 500 employees and net global turnover over EUR150 million and non-EU entities with over EUR150 million turnover generated in the EU. For the real economy companies, this essentially implies adapting business models to address to climate risks, and where relevant, set apart the CapEx and OpEx required to invest for decarbonisation.

The adoption of transition plans by the financial sector would also create a pressure for real economy decarbonisations as the focus is on banks’ and investors’ “financed emissions”. It is reported that the CSDD Directive’s provisionally agreed requirement for transition plans would also apply to the financial sector while similar requirements can be introduced for banks under prudential regulation. Additionally, a number of market initiatives have so far promoted the voluntary adoption of transition plans by the financial sector and developed guidance to this end. According to GFANZ’s [Progress Report](#) of December 2023, several major financial institutions have published their first plans in 2023 using the GFANZ’s [Net Zero Transition Plan Framework](#), with at least 250 more expected in 2024. Influenced by exiting market sources, a number of official sector guidance has been released recently for the financial sector transition planning, such as the Hong Kong Monetary Authority’s [Planning for net-zero transition](#) (August 2023) and the US Treasury’s [Principles for Net Zero Financing and Investment](#) (September 2023).

ICMA also recommended in its [response](#) to the recent comprehensive [consultation](#) on the EU’s Sustainable Finance Disclosure Regulation (SFDR) to consider a uniform disclosure to understand all funds’ exposure to investees who are implementing credible transition plans (i.e. aligned with ESRS, ISSB, and/or ICMA CTFH) where climate risks are material. This would apply regardless of presence of sustainability claims in fund products and may prove an easy-to-understand metric especially for retail investors and create a pressure on investees to adopt transition plans where this is not already required by law beyond just disclosure. As such, it may help reorienting capital flows towards credibly transitioning investees.

Where the law does not directly require the adoption of transition plans, all this together may turn transition plans into a “de-facto” requirement for most corporates issuing in the international debt markets. It would therefore be optimal for the market to anticipate or accompany regulation while meeting increasing investor demand, by promoting the voluntary provision of transition plans by issuers, especially in the hard-to-abate sectors.

## Increasing the market impact of transition plans through convergence

The widespread adoption of transition plans integrating international reporting standards such as the IFRS S2 and ESRS E1 would support the development of transition finance and of specifically transition-themed sustainable bond issuances in several ways by:

- Providing strategic context to evaluate the consistency of climate transition themed sustainable bonds with issuer level transition and sustainability commitments<sup>16</sup>. This would also help reduce greenwashing risks, as we explained in our publication “[Market integrity and greenwashing risks in sustainable finance](#).”
- Helping issuers avoid controversy related to potential carbon lock-in risk in their individual projects as transition plans promote transparency and supply context on an organisation’s overall decarbonisation efforts.

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16. We note that the 2023 update to the CTFH includes an appendix of illustrative example of issuance disclosures that aim to reinforce the link between sustainable bond issuances and broader transition strategies and targets. Similarly, in the UK, the FCA [discussed](#) some additional prospectus disclosures on the link between SLBs and broader sustainability and transition strategies.

- Enhancing SLB target setting and KPI selection with standardised sustainability reporting metrics, disclosures, and materiality guidance while potentially providing context for the evaluation of failed SPTs and circumstances beyond an entity's control.

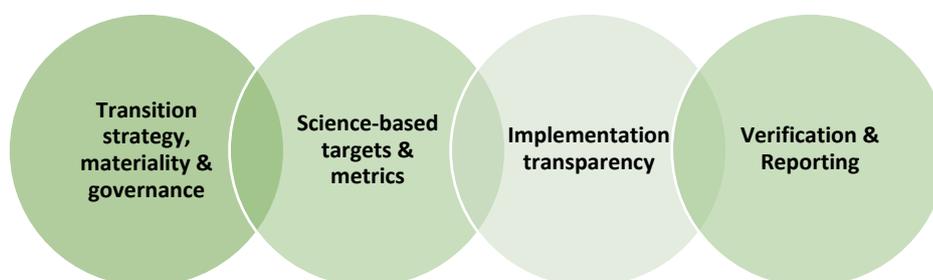
The international standardisation of transition plans will underpin their usability and maximise their relevance in the market. Looking at the IFRS S2, ESRS E1, and UK TPT, there is currently variation in the level of specificity, prescriptiveness, detail, and structure of transition plans and related elements, even if these frameworks converge on the need for them to be strategic and material to the future business model and supported by effective corporate governance. For example, although the EU's ESRS E1 lists transition plans as the very first disclosure under the strategy pillar and provides high level guidance on the expected content, the structure of transition plans is not yet clearly established. IFRS S2 developed by the ISSB merely refers to the disclosure of transition plan, if the entity has one, under the strategy pillar of the broader climate reporting and without much specific and direct content guidance.

To illustrate further, both the CTFH and the ESRS E1 allow the use of carbon credits only to abate residual emissions while the IFRS S2 does not provide any limitation. The ESRS E1 is otherwise quite prescriptive in some target setting practices. For instance, it requires target values at least for 2030, and 5-yearly updates to the baseline disclosures and targets from that date. The CTFH also has more direct and explicit reference to mitigation strategies regarding just transition and other sustainability trade-offs in the climate transition context compared with other frameworks.

Nonetheless, it is possible to achieve convergence through market practice between the CTFH and the IFRS S2, ESRS E1, and UK TPT. As mentioned, ensuring the strategic nature of climate transition to the entity's future and effective climate governance is common to all these frameworks. It should also be possible for an entity to align with the key common elements of these frameworks by publishing an integrated standalone transition plan, sitting alongside financial reporting.

### Proposed structure for integrated transition plan

(under CTFH, IFRS S2, ESRS E1, and UK TPT)



As a contribution to this effort, building on the framework of the CTFH, we are proposing a structure for such an integrated transition plan with four elements as illustrated above. We have also attached in appendix:

- Key actions & disclosures for an integrated transition plan (Appendix A).
- Summary comparison of key transition-related elements under CTFH, IFRS S2, ESRS E1, & UK TPT (Appendix B).

# Broader policies to support transition

It is important to underline that the success and development of transition finance is both a factor and contingent on the wider economic transition necessary to align with the goals of the Paris Agreement.

GFANZ, which brings together a global coalition of eight independent net-zero financial Alliances<sup>17</sup> with now over 675 financial firms in more than 50 countries, emphasises that action by financial institutions, while critical, cannot substitute for, or succeed, without the necessary action by government. In October 2021, it issued a [Call to Action](#) on G20 governments with specific policy requests and recommendations which includes economy-wide net-zero targets aligned to 1.5 °C; reform of financial regulations to support the net zero transition; phase-out of fossil fuel subsidies; pricing carbon emissions; mandatory net zero transition plans and climate reporting for public and private enterprises by 2024. GFANZ's subsequent work on Net Zero Public Policy can be found [here](#).

Also, in October 2022, the G20 Sustainable Finance Working Group released its [report](#) which introduces a Transition Finance Framework with five pillars: (i) identification of transitional activities and investments; (ii) reporting on transition activities and investments; (iii) transition-related finance instruments; (iv) designing policy measures; and, (v) assessing and mitigating negative social and economic impacts. The pillar focused on designing policy measures states that policy action is needed to send correct market signals to incentivise and accelerate the mobilisation of private capital flows to enhance the sustainability or support the orderly transition of high-emitting and/or hard-to-abate sectors and to mitigate the risks of creating stranded assets.

The G20 Transition Framework separates policy measures into two categories: (i) the use of public financing, de-risk, or support/incentives to improve the availability and affordability of climate transition finance; or (ii) price and non-price-based policy tools (such as certain incentives, regulatory measures, sectoral standards, etc.) designed to reduce emissions and accelerate the climate transitions by internalising the costs of firms and projects to inform the financial decision-making of market participants.

## Examples of policy measures provided by the [G20 Transition Finance Framework](#)

- De-risking facilities, such as government, MDBs provided loan guarantees or first-loss provisions;
- Concessional financing towards transition firms and/or projects, such as interest subsidies (either directly or on-lending via commercial banks);
- Subsidies for third party verification of transition finance instruments (e.g., used in Hong Kong SAR of the PRC, Japan, and Singapore);
- Central bank instruments (e.g., used by the People's Bank of China, Bank Indonesia, and Bank of Japan) where mandates allow;
- Emission trading schemes (ETS), carbon taxes, or other emissions pricing mechanisms that put a price on covered emissions, where revenues could also be used for a variety of purposes, including for example for supporting climate-aligned investments, and dividend/rebate programs for impacted communities;
- Investment by government sponsored “transition funds”;
- Public procurement, as a driver for innovation and for providing industry with incentives to develop environmentally friendly works, products and services, government spending for green research and development of technologies that support the climate transition activities;
- Preferential tax treatment or incentives for companies engaged with transition activities, e.g., via accelerated depreciation of fixed assets or other tax credits (in order to internalise external benefits);

17. The eight sector-specific alliances that are part of GFANZ are [Net-Zero Asset Owner Alliance](#), [Net-Zero Asset Managers initiative](#), [Paris Aligned Asset Owners](#), [Net-Zero Banking Alliance](#), [Net-Zero Insurance Alliance](#), [Net Zero Financial Service Providers Alliance](#), [Net Zero Investment Consultants Initiative](#), [the Venture Climate Alliance](#).

- Sectoral regulations that can boost demand or market shares for transition activities, e.g., setting minimum energy efficiency standards for power, building and manufacturing sectors or environment friendly labelling certifications for products, and environment management standards like ISO 14000 series etc. (e.g., Bank Indonesia's LTV on green property loans and 0% down payment for electric vehicle purchase); and,
- Introduction of regulatory or voluntary best practice key performance indicators (KPIs) that help market participants to assess a financial product's transition strategy and encourage the use of transition finance instruments.

In September 2023, the International Monetary Fund published "[Activating Alignment: Applying the G-20 Principles for Sustainable Finance Alignment with a Focus on Climate Change Mitigation](#)." The comprehensive report provides, among other things, a global framework and technical solutions to ensure greater credibility, comparability, and interoperability of climate data and presents tools to improve the credibility and uptake of transition planning, encompassing carbon-intensive activities and projects that need to undergo significant decarbonisation or phase-out. It also aims to contribute to the design of a transition finance framework in a constructive way for Emerging Market and Developing Economies (EMDEs), finding the right balance between interoperability and the local context and purpose, and solutions for alignment in EMDE-based supply chains.

# Conclusions

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## Transition finance is available but not yet where it may be most needed

We identify three different overlapping definitions in general use currently for transition finance. These can be differentiated from the wide to the narrow lens of what transition finance is understood to be achieving and include economy-wide transition, climate transition and hard-to-abate transition. The success of the sustainable bond market in contributing to transition finance highly depends on what definition is being referred to.

The Principles have promoted transition as a theme applicable to both use-of-proceeds bonds and SLBs. Considering climate transition holistically, the green and sustainability bond market to date has been largely dedicated to the financing of decarbonisation of energy, buildings, and transport sectors. Similarly, the new SLB market is squarely focused on climate transition with 69% of SLBs having GHG reduction and/or renewable energy increase targets.

The greatest challenge of transition finance resides, however, with the fossil fuel and the hard-to-abate industries as illustrated by the modest amounts raised to date by issuers from these sectors in the sustainable bond market (3% of the combined outstanding of green, sustainability and sustainability-linked bonds).

## Issuers can aim to overcome reputational concerns with official and market guidance

It remains indeed difficult for companies in the fossil fuel and the hard-to-abate industries sectors to raise transition finance because of a lack of consensus on acceptable and credible technologies and trajectories, and “greenwashing” fears for issuers and investors alike.

This paper illustrates various efforts to address these concerns with both official and market taxonomies integrating new approaches to incorporate transition and provide increasingly granular guidance to issuers. Several jurisdictions are also specifically publishing trajectories and roadmaps for the fossil fuel sector and hard-to-abate industries to provide an official reference for market participants on what can legitimately be financed. This additional guidance can provide significant comfort to issuers from these sectors wishing to mitigate their reputational risks.

## The voluntary adoption of standardised transition plans could unlock the market

Transition plans can unlock the wider availability of transition finance by (i) providing strategic context to evaluate the consistency of issuer-level transition and sustainability commitments; (ii) helping issuers avoid controversy related to potential carbon lock-in risk in their individual projects and investments; and (iii) enhancing sustainability-linked bond target setting and KPI selection while providing context for the evaluation of failed targets and circumstances beyond an entity’s control. There is important work under way from regulatory sponsored working groups to define and promote the availability of transition plans. The CTFH published by ICMA also provides a framework to structure them.

The progress on developing and adopting an international standard for corporate sustainability reporting through ISSB with parallel developments in Europe does not signal the widespread and immediate availability of standardised corporate transition plans. This may change through regulation, such as the CSDD Directive in the EU. It would be preferable however to reach this goal earlier and internationally through voluntary provision of corporate transition plans especially in the fossil fuels and hard-to-abate sectors. As a contribution to this goal, we are publishing a structure for such an integrated transition plan with two documents in appendix which are: (i) *Key actions & disclosures for an integrated transition plan* (Appendix A) and (ii) *Summary comparison of key transition-related disclosures & actions under CTFH, IFRS S2, ESRS E1, & UK TPT recommendation* (Appendix B).

# Appendix A – Key actions & disclosures for an integrated transition plan under CTFH, IFRS S2, ESRS E1, & UK TPT

Elements	Key actions & disclosures
<b>Transition strategy, materiality &amp; governance</b>	<ul style="list-style-type: none"> <li>• Adopt a Paris-aligned (ideally its 1.5°C objective) and quantitatively measurable climate transition strategy and targets using science-based pathways provided by recognised third-party sources, where they exist, and disclose methodologies and scenarios used, as well as any third-party certification.</li> <li>• Ensure that climate transition strategy is relevant to the environmentally material parts of the business model.</li> <li>• Ensure effective climate governance arrangements including senior management approval of the plan and accountability, remuneration/ incentive schemes linked to the transition strategy, and necessary skills and training across the organisation.</li> <li>• Where relevant, consider “just transition” and disclose broader sustainability policies addressing negative sustainability impacts and trade-offs.</li> <li>• Position transition plan as a standalone document sitting alongside financial reporting.</li> </ul>
<b>Science-based targets &amp; metrics</b>	<ul style="list-style-type: none"> <li>• Disclose GHG emissions covering all material Scopes as formulated in absolute (gross tCO<sub>2</sub>e), economic output (per net revenue), and industry-based metrics.</li> <li>• Adopt and disclose absolute gross (tCO<sub>2</sub>e), and where relevant, intensity-based targets for all material GHG Scopes. When only intensity targets set, disclose also the associated absolute values.</li> <li>• Adopt short (ideally 3 years max.), medium, and long-term targets, and in any case for 2030, from which date baselines and targets should be updated every 5 years.</li> <li>• There should not be any reliance on offsets except for residual (approx. 5-10%) emissions in net zero targets, in which case they should be disclosed separately and include credibility proof.</li> </ul>
<b>Implementation transparency</b>	<ul style="list-style-type: none"> <li>• Disclose all the relevant information on (i) planned changes to the business model, operations, products, as well as relevant policies and processes supporting those; (ii) actions for short (ideally 3-years max.), medium, and long term; (iii) planned investments, financial resources, and other financial metrics; (iv) internal carbon pricing; (v) engagement strategy and actions for value chains, with industry, public sector, and civil society.</li> <li>• Provide a credible link between the various levers and the transition strategy and quantify the contribution from different levers to climate objectives at least on an estimated basis.</li> <li>• Where relevant, disclose potential adverse sustainability impacts and mitigating actions and expenses (e.g. for “just transition”).</li> </ul>
<b>Verification &amp; reporting</b>	<ul style="list-style-type: none"> <li>• Obtain an external review assessing the credibility of the entity’s strategy, its alignment to the referenced science-based trajectories, and its climate governance alongside any potential jurisdictional requirement required for sustainability reporting (e.g., limited or reasonable assurance).</li> <li>• Report annually quantitative and qualitative information on the progress against the transition plan, targets, and metrics.</li> <li>• Regularly update the transition plan (ideally every 3 years), and when there are significant changes.</li> </ul>

## Appendix B – Summary comparison of key transition-related actions & disclosures under CTFH, IFRS S2, ESRS E1, & the UK TPT

Elements		CTFH (ICMA)	IFRS S2 (ISSB)	ESRS E1 (EC)	UK TPT recommendation
Transition strategy, materiality & governance	Requirement	Alignment with the CTFH is a recommended voluntary best-practice which implies some behavioural and disclosure requirements.	Disclosure of transition plan and targets is contingent on reporting entities voluntarily having them in the first place.	Disclosure of transition plan and targets is contingent on reporting entities voluntarily having them in the first place. However, the CSDD Directive in the EU may make the adoption of 1.5 °C compatible transition plans mandatory for certain large EU and non-EU entities (including in the financial sector).	Subject to the FCA's upcoming consultation on transition plans (expected in H1 2024), it is expected that disclosure of transition plan and targets will be contingent on reporting entities voluntarily having them in the first place.
	Materiality	Climate transition strategy should be relevant to the environmentally material parts of an issuer's business model.	Subject to reporting entity's own materiality assessment.	Subject to reporting entity's own materiality assessment. However, if the entity concludes climate change is not material, it shall publish a detailed explanation.	Subject to reporting entity's own materiality assessment.

Elements		CTFH (ICMA)	IFRS S2 (ISSB)	ESRS E1 (EC)	UK TPT recommendation
Transition strategy, materiality & governance	Ambition	Climate transition strategy should be aligned with, benchmarked against, or otherwise reference recognised third-party, science-based trajectories, where they exist. When third-party trajectories are not available, issuers should consider industry peer comparison and/or internal methodologies/historical performance. Aligning the business plans with a 1.5°C trajectory will be perceived as most credible; at a minimum, issuers should align to a well below 2°C trajectory.	Disclosure of how the latest international agreement on climate change, including jurisdictional commitments, informed the targets; whether the targets and relevant methodology are validated by a third party, and whether the targets are derived from a sectoral decarbonisation approach.	Disclosure of whether and how targets set by the entity are science-based, compatible with 1.5°C objective, assured by a third-party, and which framework or methodology they are based on (including sectoral decarbonisation pathways and underlying policy scenarios). However, the CSDD Directive in the EU may make the adoption of 1.5 °C compatible transition plans mandatory for certain large EU and non-EU entities (including in the financial sector), imposing a mandatory ambition level through “best efforts”.	Disclosure of how the latest international agreement on climate change, including jurisdictional commitments, informed the targets; disclosure of the consideration of and alignment with any external requirements, commitments, science-based targets, pathways, roadmaps or scenarios (e.g. national or international commitments of governments, targets required by law or regulation, sectoral pathways, roadmaps or other scenarios, voluntary commitments); disclosure of whether targets and methodology have been validated by a third-party.
	Governance	Disclosure of clear oversight and governance of an issuer's climate transition strategy, including management/board level accountability.	Disclosure of who oversees the setting of targets and progress including whether and how remuneration policies are correlated with these as well as the role of the management in governance processes, controls, and procedures. The other core content of Governance section of the IFRS S2 is also relevant.	Disclosure of whether and how climate-related considerations are factored into the remuneration of members of the administrative, management and supervisory bodies, including in relation to GHG reduction targets, and whether transition plans are approved by such bodies. More general governance related disclosures are provided under ESRS 2 on General Disclosures.	Disclosure on the governance bodies/individuals responsible for the oversight of the plan; management's role in the processes, controls, and procedures and how these are embedded within the wider control, review and accountability mechanisms; alignment of the culture and of incentives/remuneration policies with the company's strategic transition ambition; and how necessary skills, competencies, and training across the organisation are being ensured.

Elements		CTFH (ICMA)	IFRS S2 (ISSB)	ESRS E1 (EC)	UK TPT recommendation
Transition strategy, materiality & governance	Just Transition / DNSH	Evidence of a broader sustainability strategy to mitigate relevant environmental and social externalities, including 'just transition' considerations, where appropriate, and contribution to the UN SDGs are listed as recommended disclosures under the Strategy and Governance pillar. The CTFH also states that the trajectory should consider issuer's broader environmental and social impact, and an issuer should seek to mitigate negative externalities.	Just transition is not directly included in the climate transition plan-relevant disclosures at this stage <sup>18</sup> .	Just transition and the DNSH aspects are not directly included in the climate transition plan-relevant disclosures at this stage, but rather covered under the ESRS S1 Own Workforce and other topical ESRS as relevant.	Disclose whether and how impacts and dependencies of the transition plan on stakeholders, society, the economy, and the natural environment have been identified, assessed, and taken into account.
Science-based targets & metrics	GHG Emissions	Disclosure of the baseline year and historic emissions (including absolute emissions, where intensity metrics are the main indicator). Where material, Scope 3 emissions should be disclosed, or the issuer should disclose a timeline for Scope 3 reporting.	Mandatory GHG emission disclosures covering all material Scopes using both absolute (gross tCO <sub>2</sub> e) and industry-based metrics with the latter considering also the ISSB's future industry-specific guidance. Transitional relief(s) and other flexibility (e.g. use of estimations) apply for Scope 3 reporting.	Mandatory GHG emission disclosures covering all material Scopes in both absolute (gross tCO <sub>2</sub> e) and economic output intensity (total GHG emissions per net revenue) metrics. Transitional relief(s) and other flexibility (e.g. use of estimations) apply for Scope 3 reporting.	Disclosure of absolute gross GHG emissions (tCO <sub>2</sub> e) for Scope 1, Scope 2, and if appropriate, Scope 3 emissions, generated during the reporting period <sup>19</sup> .

18. Other general ISSB guidance, such as on interdependencies and other sustainability risks, may however be relevant. ISSB also [consulted](#) on its future priorities with a potential focus on biodiversity, human capital, and human rights, and most recently, directed the staff to develop educational material regarding some nature and social aspects of climate-related risks and opportunities.

19. In the UK, the disclosure of GHG emissions is currently mandated in line with the TCFD reporting and on a comply or explain basis. The TCFD framework will likely be replaced by the UK's adoption of the IFRS S1 and S2. The current TCFD-based GHG disclosure mandate refers to the Scope 3 reporting "if appropriate."

Elements		CTFH (ICMA)	IFRS S2 (ISSB)	ESRS E1 (EC)	UK TPT recommendation
Science-based targets & metrics	GHG target metrics	Targets formulated either in intensity-based or absolute metrics; in the case of former, projections for absolute emission reduction should also be disclosed.	Where targets are quantitative, disclosure of whether they are absolute, or intensity based. In determining metrics, the entity should consider both cross-industry and industry-based metrics.	If the undertaking has set GHG emission reduction targets, disclosure of targets in absolute (tCO2e or % of emissions of a base year), and where relevant, in intensity value (per physical activity or economic output, as per ESRS sector standards). If the entity has only set an intensity target, it shall nevertheless disclose the associated absolute values.	Where targets are quantitative, disclosure of whether they are absolute, or intensity based.
	Horizons	Credible interim targets in the short and medium-term on the trajectory towards a long-term, Paris-aligned goal.	References to “milestones” and “interim targets”.	Disclosure of target values at least for 2030, and if available, for 2050, and update of baselines and targets on a 5-years rolling basis as of 2030. Base year for a new target should not precede the start of the target period date by more than three years. There are other detailed Application Requirements under ESRS E1 on baseline references and calculations.	Disclosure of short (recommended as max. 3 years), medium, and long-term targets and milestones including definitions for each.

Elements	Carbon credits	CTFH (ICMA)	IFRS S2 (ISSB)	ESRS E1 (EC)	UK TPT recommendation
Science-based targets & metrics	Carbon credits	Use of high-quality and integrity carbon credits for offsetting is allowed only to abate the residual emissions, and such needs to be justified while issuer carbon credit procurement policy and governance to be disclosed.	Disclosure of the planned use of and reliance on carbon credits to achieve the net targets, their type (e.g., whether nature or technology-based), third-party verification/certification schemes, and any other credibility and integrity disclosures.	GHG removals, carbon credits, or avoided emissions cannot be used to meet targets. However, in the case of a net-zero target, they can be used to neutralise the residual emissions (after reducing 90-95% of emissions), as supported with disclosures including to demonstrate credibility.	Disclosure on the use of carbon credits in achieving strategic ambition, alongside justification, third-party verification/certification, standard or methodology used, type of carbon credit, and other credibility and integrity factors. The TPT however states that good practice transition plans should prioritise decarbonisation through direct abatement over purchasing carbon credits.

Elements	CTFH (ICMA)	IFRS S2 (ISSB)	ESRS E1 (EC)	UK TPT recommendation
Implementation transparency	<p>Recommended disclosure of CapEx and CapEx roll-out plan (inc. % green CapEx vs. total and its expected evolution) as well as qualitative and quantitative climate outcome and impact these are expected to enable; R&amp;D investments; phase-out plans and divestments; internal carbon cost assumptions; potential locked-in emissions from key assets/products; assets /revenues / expenditures /divestments aligned to various levers; any other “beyond BAU” expenses; governance and process changes. A specific itemisation of the main levers towards GHG emissions reductions is also required under the strategy or transition plan disclosures.</p> <p>Where relevant, issuers should outline how they have incorporated the “just transition” and disclose on adverse impacts on the workforce, community, and surrounding environment and related mitigation strategies. They may also detail any social expenditures that are considered relevant.</p>	<p>Disclosure of (i) current and anticipated changes to the business model including resource allocation (e.g., decommissioning, R&amp;D, etc.); (ii) current and anticipated direct efforts (e.g., changes in production processes or equipment, relocation of facilities, workforce adjustments, changes in product specifications) and indirect efforts (e.g., working with customers and supply chains); (iii) planned actions and resources to achieve the targets; (iv) capital deployment (CapEx, financing, or investments); (v) carbon price considerations and cost assumptions.</p>	<p>Disclosure of (i) the identified levers and key actions (e.g., use of RE, energy or material efficiency, changes to product and service portfolio, adopting new technologies, phase-outs and decommissions, or substitution, etc.) and their overall expected quantitative contributions to targets’ achievement; (ii) quantitative disclosures of investments and financial resources (including EU Taxonomy-aligned CapEx for those subject to Art.8 of the Taxonomy Regulation); (iii) qualitative assessment of potential locked-in emissions from key assets/products; (iv) internal carbon pricing schemes.</p>	<p>Disclosure of (i) short (recommended as maximum 3 years), medium-, and long-term actions related to business operations (e.g., production processes, equipment, workforce adjustments, supply chain and procurement, asset phase outs, etc.); (ii) changes to product and service portfolio (including any underlying tools, methodologies, definitions used to classify products and services); (iii) relevant policies and conditions (e.g., energy use, procurement); (iv) financial planning (e.g. financial resources, and effects of the transition plan implementation on the entity’s financial position, cash flow, and performance, taking into account also its investment and disposal plans); (v) engagement strategy and actions for the value chains, with industry and public sector and civil society. Implementation policies may also cover safeguards to address potential adverse human rights and labour impacts and impacts on the natural environment.</p>

Elements		CTFH (ICMA)	IFRS S2 (ISSB)	ESRS E1 (EC)	UK TPT recommendation
Verification & reporting	External Review	Substantive review required for assessing the credibility of the entity's strategy, its alignment to the referenced science-based trajectories, and its climate governance. Also, the GBP/SBP/SBG recommendations for the external review of frameworks and allocation reports as well as the SLBP requirement for annual verification of KPIs (e.g., annual limited or reasonable assurance) can be leveraged to demonstrate alignment with the CTFH.	Up to the individual jurisdictions adopting the ISSB standards to decide on the type and level of external verification and assurance.	Mandatory limited assurance which would likely be upgraded to a reasonable assurance in future as per the CSRD.	Disclose information about which aspects of the transition plan are subject to external assurance or verification, including the nature of the assurance or verification. Eventually, the assurance and its required level may be determined by the UK policymakers.
	Reporting	Relevant disclosures can be referenced in issuers, annual reports, sustainability reports, climate transition strategy, statutory filings and/or investor presentations and should be publicly accessible to investors. The Appendix of the CTFH provides examples of sustainable bond disclosures to demonstrate CTFH alignment, leveraging also the existing post-issuance reporting requirements of the Principles.	Annual quantitative and qualitative disclosure about the progress of the plan.	Annual disclosure of an entity's progress in implementing the transition plan.	At least annual disclosure on the progress against the targets and the plan. The TPT recommends that the plan should be updated every three years, and when there are significant changes.

# Appendix C – The integration of transition in taxonomies

We summarise below the efforts and progress from both the market and the official sector to incorporate the complexity of transition into taxonomies.

## Transition as an activity with an outcome

The EU Taxonomy's transition perspective can be defined as twofold. Firstly, the Taxonomy defines green transitional activities as those which (i) have no technological and economically feasible low carbon alternative; (ii) are consistent with 1.5°C objective by having the best GHG performance in the sector and the industry; (iii) do not hamper the development and the deployment of low carbon alternatives; and (iv) do not cause carbon lock-in. There are currently 29 transitional activities with technical screening criteria (TSC) listed in the [Climate Delegated Act](#) out of 95 activities in total.

In several cases, the TSC for these activities are outcome-based, i.e., referring to the end-state environmental/GHG performance of an activity. These thresholds and conditions are expected to tighten every three years to accommodate technological and scientific development and the need for enhanced ambition over time. The eligibility approaches and metrics differ depending on the activity in question, and may include, among other things, quantitative thresholds, relative improvement against a baseline, and less commonly, thresholds embedding a pathway and sunset dates which aim to avoid carbon lock-in.

Eligibility approaches	Transitional activity examples	Substantial Contribution criteria
Quantitative thresholds with physical intensity metric <sup>20</sup>	3.7: Manufacturing of cement	"grey cement clinker where the specific GHG emissions are lower than <b>0,722 (100) tCO<sub>2</sub>e per tonne of grey cement clinker</b> "
Quantitative thresholds embedding a pathway	6.7: Inland passenger water transport	"...where technologically and economically not feasible to comply with point (a), from 1 January 2026 onwards the yearly average GHG intensity of the energy used on-board ... does not exceed the following limits: <b>76,4 g CO<sub>2</sub>e/MJ (01.12.2026 – 31.12.2029); 61,1 g CO<sub>2</sub>e/MJ (01.01.2030 – 31.12.2034); ...; 15,3 g CO<sub>2</sub>e/MJ from (01.12.2045 – 31.12.2049); 0 g CO<sub>2</sub>e/MJ (from 1.12.2050.)</b> "
Relative improvement	7.2: Renovation of existing buildings	"...Alternatively, it leads to a <b>reduction of primary energy demand of at least 30%</b> "
Sunset date	4.29: Electricity generation from fossil gaseous fuels	"...(b) facilities for which the construction permit is granted by 31 December 2030 comply with all of the following: ... (v) the facility is designed and constructed to use renewable and/or low-carbon gaseous fuels and the <b>switch to full use of renewable and/or low-carbon gaseous fuels takes place by 31 December 2035.</b> "

20. The quantitative thresholds for many manufacturing activities are based on the average value of the top 10% most efficient installations in GHG performance in Europe according to the EU ETS data.

The second transition aspect of the EU Taxonomy comes from its implementation. The CapEx metric speaks to the investments of a company and signals its future direction. It is incorporated both as a metric for annual Taxonomy reporting for entities subject to the [Corporate Sustainability Reporting Directive](#) and as a use-of-proceeds type under the [EU Green Bond Standard](#). Importantly, such a CapEx definition also includes an entity's plans to expand the Taxonomy-aligned activities or render existing ones as Taxonomy-aligned within usually five, and exceptionally ten years (the "CapEx Plan" mechanism).<sup>21</sup> These CapEx Plans can be disclosed as Taxonomy-aligned immediately rather than being subject to the completion of the project. This aims to create a regulatory incentive to consider Taxonomy alignment comprehensively in both greenfield and brownfield investments in a forward-looking and outcome-based manner.

The [ISO Taxonomy](#) is generally similar to the EU Taxonomy in its design, classification approach, and high-level eligibility conditions consisting of Substantial Contribution, DNSH, and Minimum Safeguards for social considerations. It is however climate-focused only and prioritises international acceptance by recognising regional differences and circumstances including the differing commercial availability of various Best Available Technologies. It provides sector criteria, potential environmental benefits, and environmental performance indicators including high-emitting sectors (e.g., cement, aluminium, iron & steel, etc.). The Annex B of the ISO Taxonomy provides exemplary thresholds, criteria, and exclusions also for these transitional sectors/sub-sectors. Nuclear and unabated gas are not included in the ISO Taxonomy.

## Project and "whitelist" based approaches

On the market side, the [MDBs – IDFC Common Principles](#) incorporate a project/measure-based approach and provide eligibility principles including for transitional activities, as well as exclusions. The eligibility for transition activities generally refers to high performance country or sector standards, benchmarks, or thresholds that significantly exceed expected performance in a sector or activity. The Common Principles avoid imposing fixed quantitative thresholds to allow flexibility for individual mandates and specific circumstances in the areas of operation of MDBs and the application of other standards or taxonomies. Otherwise, as a key eligibility approach, it relies on the greenfield and brownfield activity distinction. Greenfield projects must enable substantially higher system-efficiency compared to those normally used in greenfield projects. For brownfield projects, old technologies must be replaced well before the end of their lifetimes with substantially more efficient technologies.

In China, the [Green Bond Endorsed Project Catalogue \(2021 edition\)](#), which is mandatory to use for green bonds, incorporates a "white-list", measure-based approach including for transitional areas such as industrial energy efficiency retrofit. Besides, the People's Bank of China (PBOC) is currently [leading](#) the development of a national policy framework for transition finance. The framework will incorporate a broad approach towards transition, including a dedicated transition taxonomy, disclosures for transitioning companies, dedicated instruments, incentives for transition, and just transition aspects. While the PBOC's detailed approach on the transition taxonomy is yet to be disclosed, it is [expected](#) to focus on the sectors of agriculture, buildings and building materials, coal and thermal power, and steel. Some local authorities in China such as the Huzhou City have already developed transition taxonomies.

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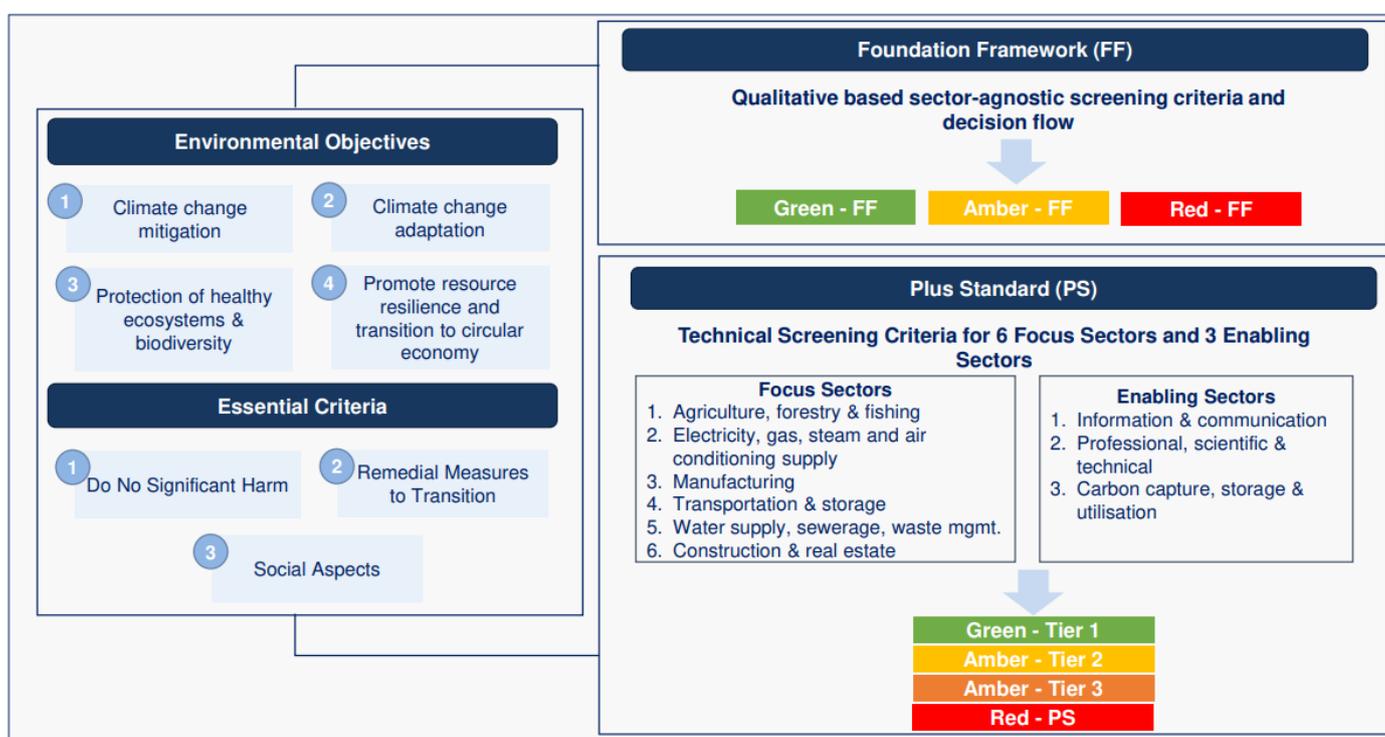
21. The details of the CapEx plan mechanism are set under the [Article 8 Delegated Regulation](#).

## The “traffic lights” approach

In Asia, the prominent transition debate is also at the heart of ongoing taxonomy works by the official sector. Given the diversity of development and circumstances of ASEAN Member States, the ASEAN Taxonomy (see [Version 2](#)) is being developed with a specific focus on inclusivity. It consists of a multi-tiered approach and two main elements: (i) a principles-based Foundation Framework with a qualitative assessment of activities based on a sector agnostic decision tree and (ii) a Plus Standard with detailed technical criteria, metrics, and thresholds.

Several aspects of the ASEAN Taxonomy are transition relevant. The focus on the emission intensive energy sector for technical criteria development is an obvious starting point. The “traffic lights” approach also incorporates different performance levels for classification purposes. Not meeting the DNSH does not lead to immediate disqualification as “remedial measures”, when already commenced or to be implemented within five years, allow activities to qualify for green or amber-level performance categories. As the ASEAN Taxonomy assumes that “amber” tiers will be gradually phased out over time and performance will converge into the green level, sunseting is adopted in the relevant technical criteria. We note that similar transition aspects are also incorporated in individual Asian taxonomies, such as those in Malaysia and Singapore.

### Structure of the ASEAN Taxonomy



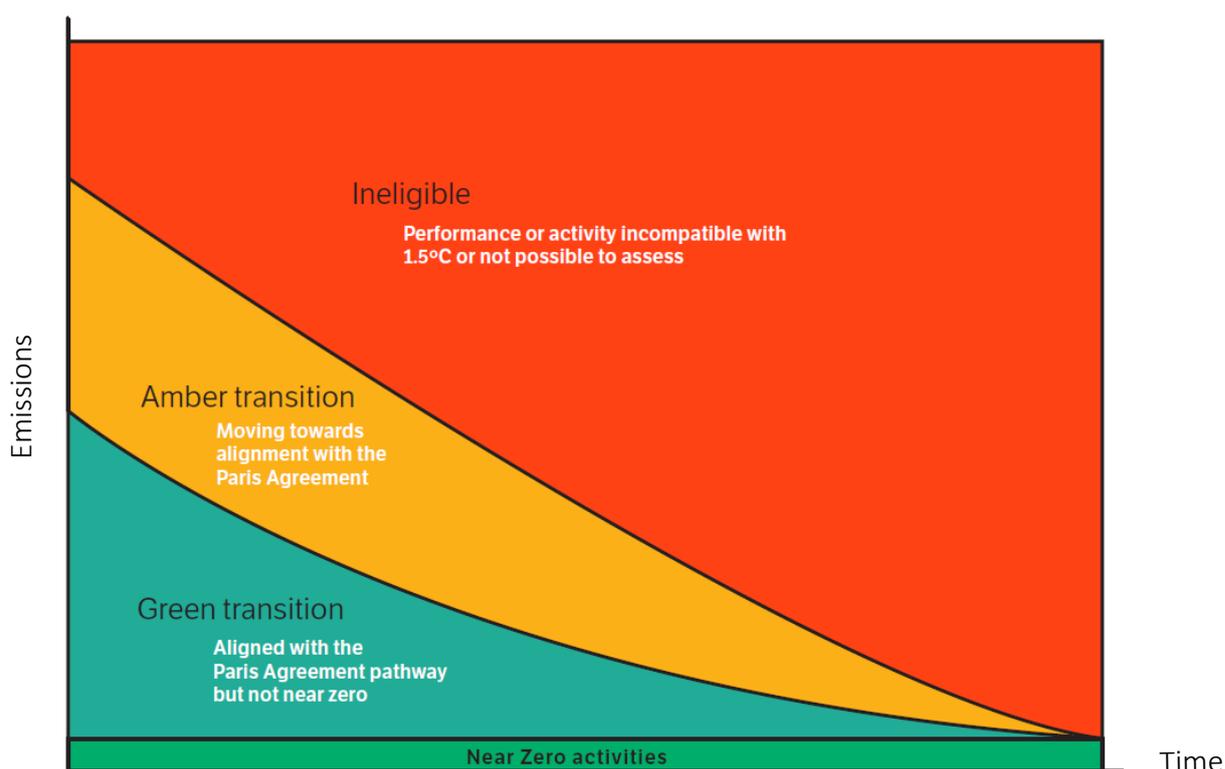
Source: [ASEAN Taxonomy for sustainable finance \(Version 2\)](#)

The EU Platform on Sustainable Finance [recommended](#) that the EU Taxonomy introduce an “amber” performance level and incentivise “interim transitions” (i.e., from red to amber or within the amber category itself) on the way towards the green. This recommendation has so far not been acted on, despite the Commission recently endorsing such use on a voluntary basis in its [Recommendations on transition finance](#) of June 2023.

## Integrated approaches

The [traffic-lights Taxonomy](#) of the CBI is particularly relevant for use in green financial instruments. It also constitutes the cornerstone of the [CBI certification](#) alongside its more detailed [Sector Criteria](#). The CBI has recently started to provide Sector Criteria for carbon-intensive businesses including basic chemicals, cement, shipping, and steel. These Sector Criteria are applicable at different levels to allow the certification of measures/projects, asset, and/or entities, at the choice of the certification seeker. The criteria for individual sectors also rely on a variety of eligibility approaches. Examples include: (i) measures and projects that are automatically eligible; (ii) measures eligible if leading to a certain outcome in existing facilities (e.g., X% cut in emission intensity by 2030); (iii) facility-level criteria for new investments; and (iv) tiered entity-level criteria for certification, requiring quantitative intensity values to be met over a declining emissions pathway, at least by 2030.

The [Singapore-Asia Taxonomy](#) is essentially based on a traffic-light system where the green category is built on science-based pathways and the EU Taxonomy's TSC, but still reflects local specificities in some cases. The green category includes both near-zero emission activities and those decarbonising in line with a 1.5 °C pathway. New activities should generally meet the criteria and thresholds for the green category. On the other hand, the amber category is relevant to existing assets and brownfield investments, includes activities currently not on a 1.5 °C pathway, but are either moving towards green or facilitating significant emissions reductions in the short term. In any case, amber activities are constrained with sunset dates as transition cannot last forever, usually by 2030, and for some industrial activities, by 2035.



Source: [Singapore-Asia Taxonomy](#)

In addition to facility-level thresholds-based criteria, the Singapore-Asia Taxonomy also incorporates a measures-based approach for some activities (e.g. basic chemicals, cement, hydrogen). Among other things, this is intended to enhance the usability of the Taxonomy for CapEx and labelled use-of-proceeds bonds. For hard-to-abate industries, since such measures-based approach is more flexible compared with attaining a certain quantitative performance level, it needs to be supported with 1.5 °C aligned transition plans placing such measures at a strategic and continuous decarbonisation context.

In Australia, under the ASFI Taxonomy project, joint industry-government initiative, a [detailed proposal](#) has been made on how to integrate transition. For activity-level categorisations, it also proposes to require a credible transition plan, net zero target, and public climate disclosures going beyond the satisfaction of activity-level requirements. Similarly, the [green and transition taxonomy project](#) in Canada, initiated and backed by financial institutions and private sector, contemplates that green or transition instrument issuers comply with entity-level transition planning requirements in addition to project level criteria of the Taxonomy.

## Transition as a managed phase out

For the first time, there have recently been proposals to include technical criteria for the managed phase out of coal, in taxonomies, as in the ASEAN and Singapore taxonomies. The managed phase-out of carbon intensive assets broadly refers to strategies to finance or enable the early retirement of such assets. There already exist international initiatives by MDBs, agreements between developed and developing nations<sup>22</sup>, and market-led guidance by [GFANZ](#) and CBI, CPI, and RMI<sup>23</sup> on the concept. While being a new development, the focus in Asian taxonomies on the coal phase out is not surprising given the energy mix in the region.

The ambition and stringency of the criteria is of utmost importance to ensure the credibility of a taxonomy which incorporates such activity. The [Singapore-Asia Taxonomy](#) adopts a hybrid approach for managed coal phase out. It combines facility-, entity-, and energy system-level criteria and include several safeguards, among which a commitment from the coal plant owner for no new coal plant development and having an entity-level, Paris-aligned transition plan in place.

The CTFH and other transition plan frameworks already recognise phase outs, decommissioning, and divestments as potential decarbonisation levers. Having a transition plan could indeed offer a broad strategic view on exiting coal and future business transformation (e.g., shift to renewables). As such, it could also address the risk of moral hazard and unintended consequences, such as a collective backloading by coal operators of their phase-outs towards the end of 2040 coal exit deadline recommended by the [International Energy Agency](#) (IEA) for developing economies. Otherwise, such unwanted situation could arise due to green or amber labelling provided under a taxonomy.

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22. For example, in 2021, the Asian Development Bank has launched the [Energy Transition Mechanism](#) which aims to use concessional and commercial capital to accelerate the retirement or repurposing of fossil fuel power plants and replace them with clean energy alternatives. The coal-phase out is also the core pillar of [Just Energy Transition Partnerships](#) which now cover several developing economy countries.

23. In June 2022, GFANZ published its guidance on the [managed phaseout of high-emitting assets](#), and, in December 2023, its [APAC-focused guidance](#). The CBI, CPI, and RMI, also jointly published [Guidelines for Financing a Credible Coal Transition](#) in November 2022.

# Appendix D – Non-exhaustive list of existing transition finance definitions

Sources	Organisation(s)	Definitions
<a href="#">Basic Guidelines on climate transition finance</a> (May 2021)	Japan's Financial Services Agency and Ministry of Economy, Trade and Industry; and Ministry of the Environment	“Transition finance refers to a financing means to promote long-term, strategic GHG emissions reduction initiatives that are taken by a company considering to tackle climate change for the achievement of a decarbonised society. In particular, Japan, with the aim to achieve 2050 carbon neutral, defines transition finance as a finance for supporting the fundraiser who have set their target consistent with the Paris Agreement and satisfied the elements set forth in these Guidelines.”
<a href="#">G20 Sustainable Finance Report</a> (October 2022)	G20 Sustainable Finance Working Group	“Transition finance, as discussed in this report, refers to financial services supporting the whole-of-economy transition, in the context of the Sustainable Development Goals (SDGs), towards lower and net-zero emissions and climate resilience, in a way aligned with the goals of the Paris Agreement.”
<a href="#">Guidance on Transition Finance -Ensuring Credibility of Corporate Climate Transition Plans</a> (October 2022)	OECD	“In the context of this Guidance, transition finance is understood as finance deployed or raised by corporates to implement their net-zero transition, in line with the temperature goal of the Paris Agreement and based on credible corporate climate transition plans.”
<a href="#">Recommendation on facilitating finance for the transition to a sustainable economy</a> (June 2023)	European Commission	<p>“Although the Union’s legal framework does not define the concept of transition finance, transition finance should be understood as the financing of climate- and environmental performance improvements to transition towards a sustainable economy, at a pace that is compatible with the climate and environmental objectives of the EU.</p> <p>...</p> <p>Transition finance means financing of investments compatible with and contributing to the transition, that avoids lock-ins, including: (a) investments in portfolios tracking EU climate transition benchmarks and EU Paris-aligned benchmarks; (b) investments in Taxonomy-aligned economic activities, including: i) transitional economic activities as defined by Article 10(2) of Regulation (EU) 2020/852 for the climate mitigation objective, ii) Taxonomy-eligible economic activities becoming Taxonomy-aligned in accordance with Article 1(2) of Commission Delegated Regulation (EU) 2021/2178 over a period of maximum 5 (exceptionally 10) years; (c) investments in undertakings or economic activities with a credible transition plan at the level of the undertaking or at activity level; (d) investments in undertakings or economic activities with credible science-based targets, where proportionate, that are supported by information ensuring integrity, transparency and accountability.”</p>

Sources	Organisation(s)	Definitions
<a href="#">Scaling Transition Finance and Real-economy Decarbonization - supplement to the 2022 Net-zero Transition Plans report</a> (December 2023)	<a href="#">Glasgow Financial Alliance for Net Zero (GFANZ)</a>	<p>“GFANZ defines Transition Finance as investment, financing, insurance, and related products and services that are necessary to support an orderly real-economy transition to net zero.</p> <p>GFANZ has identified four key transition financing strategies that finance or enable the following:</p> <ul style="list-style-type: none"> <li>• Climate Solutions — Entities and activities that develop and scale climate solutions</li> <li>• Aligned — Entities that are already aligned to a 1.5 degrees C pathway</li> <li>• Aligning — Entities committed to transitioning in line with 1.5 degrees C aligned pathways</li> <li>• Managed Phaseout — The accelerated managed phaseout of high emitting physical assets”</li> </ul>
<a href="#">Financing the Corporate Climate Transition with Bonds: A Practical Guide</a> (November 2023)	<a href="#">CBI, EBRD, Green Climate Fund</a>	<p>As greenhouse gas (GHG) emissions continue to rise across all economic sectors globally, there is a growing recognition that finance in support of climate mitigation goals must be scaled up and consistent with a pathway towards a low-carbon economy. This means that finance must take a dynamic and forward-looking view of corporate decarbonisation journeys and be inclusive of geographies and sectors, especially emissions intensive ones. Climate transition finance refers to finance earmarked to fund this dynamic process of decarbonising an entity. Climate transition finance can be seen as a sub-set of green finance because it contributes to a better environmental outcome.</p>

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